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Carlisle, John Griffin

Speech of the
Hon. John G. Carlisle...

[Boston]

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SPEECH

OF THE

HON. JOHN G. CARLISLE

Secretary of the Treasury of the United States

DELIVERED AT A DINNER OF THE MASSACHUSETTS REFORM CLUB

AT BOSTON, OCTOBER 12, 1895

ISSUED BY THE MASSACHUSETTS REFORM CLUB

SPEECH OF THE HON. JOHN G. CARLISLE.

Mr. President and Gentlemen of the Massachusetts Reform Club,— After your kind invitation to attend this dinner had been accepted, and I had been advised that the gentlemen present would expect me to say something, I was considerably embarrassed about the selection of a subject to discuss; but, fortunately, my embarrassment was greatly relieved by the receipt of a notice, stating that I would address the club upon the subject of "Sound Currency." It will scarcely be claimed by anybody that the business men of Boston actually need instruction upon this subject; and yet it is of such vast importance to them, and to the whole country, that its discussion cannot be considered inappropriate even in this great commercial community. I am glad of the opportunity to talk on such a theme in their presence, because I know they fully appreciate its importance, and do not underestimate the efforts that have been made during the last two or three years to sustain the credit and honor of the government, and prevent the depreciation of the currency in the hands of the people. In fact, they have rendered very material assistance to the public authorities in the accomplishment of this work; and they are entitled to the thanks of the whole country for their patriotic course in supporting the financial policy of an administration to which many of them were, and are still, politically opposed. I very well remember how, at a most critical period in the business affairs of the country, the banks of Boston almost emptied their vaults of gold by depositing $4,600,000 in the treasury to replenish the vanishing reserve, and how, at a later date, when the enemies of the public credit were denouncing the administration for its conduct of our financial affairs, the Boston Chamber of Commerce, composed of gentlemen of both political parties, assembled at a special meeting, and unanimously called upon the Senators and Representatives from Massachusetts to lay aside all questions of party advantage, and assist in the great work of restoring public confidence. I assure you that these evidences of your sympathy and support were fully appreciated, and were not wholly unexpected; for the conservative and practical character of your community is well understood everywhere throughout the country. From the earliest times in our history the merchants, manufacturers, bankers, and professional men of your city have been distinguished for the industry and ability displayed in the conduct of their business, and for the honesty and fidelity with which they have met all their engagements. This has given them a credit in the

commercial world worth more to them in times of financial distress than all their lands, houses, and goods, because a well-established credit is always available to procure in the markets what is needed, while property cannot always be immediately utilized. A depreciated and fluctuating currency destroys credit, and thus robs the people of one of their most valuable means of carrying on business. The mere apprehension that our currency might be debased by the inability of the government to continue the policy of redeeming its obligations in gold has already produced one of the greatest financial disturbances that ever occurred in our history, and resulted in the loss of thousands of millions of dollars to our people. There were doubtless other causes contributing to this result; but this was the most potent one in this country, and without it we should not have suffered more than other parts of the world from the general depression. What would have been the consequences if these apprehensions had proved correct, if the government had, in fact, been unable, or unwilling, to maintain the equal exchangeable value of all forms of currency in the hands of the people, no man can tell; but that they would have been most disastrous nearly every well-informed man now concedes.

Fortunately, one of the causes which contributed largely to produce a feeling of distrust and apprehension, and which very greatly intensified that feeling at all the stages of our long financial struggle, has apparently ceased to exert any considerable influence over the minds of the people here or abroad. I mean the persistent and aggressive agitation in favor of the free coinage of legal tender silver, which for a long time seriously threatened to revolutionize our monetary system, and reduce our entire volume of currency to about half its present value. I do not mean to assert that there was ever a time when there was real danger that this would be done, but there were times at which the sentiment in its favor was so strong and so aggressive in its character that there were at least reasonable grounds for the fear that it might be accomplished, and especially reasonable grounds for such a fear upon the part of investors abroad, who could not be expected fully to understand the actual situation here; but the free coinage movement has lost its momentum, and is no longer formidable or aggressive. It is on the defensive now; and, when a revolutionary movement is compelled to halt and defend itself, the end is not far off. It would not be correct to say that the contest is over, because the sentiment in favor of the free coinage of silver is still quite strong in some parts of the country; but it is not strong enough to exert a controlling influence in the councils of either of the great political parties, and without this it can accomplish nothing in the form of legislation or in the determination of administrative policy. No well-informed man now believes that our standard of value will be changed, or that the financial policy which has been steadily pursued by the present administration will be abandoned; and foreign holders of our securities and foreign investors in our industrial and commercial enterprises will make a great mistake if they permit themselves to be influenced by the fear that our currency will be depreciated or that all our obligations will not be promptly and honestly discharged.

The proposition that the United States alone shall adopt the policy of free coinage at a ratio which would make the silver dollar intrinsically worth only about one-half as much as the gold dollar, and declare both coins full legal tender in the payment of debts, is so unreasonable upon its face that it is difficult to understand how it could have received the support of so large a part of our people. That two full legal tender coins of the same denomination, but of unequal intrinsic value, cannot be kept in circulation at the same time has been so often demonstrated by actual experience that the question is no longer open to serious discussion. In fact, very few of the advocates of free coinage now contend that gold and silver would continue to circulate together under their policy; but they insist that the gold standard ought to be abandoned, though gold coin should be banished from the country, because, they say, the effect of the present system is to reduce the prices of commodities, increase the burdens of what is called the debtor class, and enrich the holders of capital in the form of money at the expense of the farmers and other producers.

It must be admitted that these are serious allegations, and, if they could be proved, a strong case for relief would be presented; but they have not been and cannot be proved. In order to show that the adoption and maintenance of the gold standard of value has of itself reduced the prices of commodities, it would be necessary to prove that it had produced a contraction of the currency, or that it had impaired credit, which is by far the most potent factor in trade. It has done neither. We have a much larger circulation in the aggregate, and much larger per capita, than we had in 1873, when the gold standard was legally adopted; and it is evident that the credit of the man who proposes to pay in good money must be better than the credit of the man who proposes to pay in bad money. In order to show that the adoption and maintenance of the gold standard has increased the burdens of debtors, it would be necessary to prove not only that the existing indebtedness was contracted under a different monetary system, but also that the amount of legal tender money in use, or available for use, is less now in proportion to the total indebtedness than it was at the time the debts were contracted. Neither of these propositions can be established. The entire indebtedness of our people — that is, the current indebtedness contracted in the transaction of their ordinary business — has been incurred since the passage of the act of 1873 adopting the gold standard of value; and, certainly, there is no injustice in requiring payment to be made in the kind of money recognized by law at the dates of the con-

facts. While we know very nearly the amount of legal tender money in circulation, or available for use, in the country at different periods, there are no authentic statistics showing the total amount of indebtedness at any given date, and therefore it is not possible to make an absolutely correct comparison between the amount of such money and the amount of indebtedness; but there is no reason to believe that the proportion has changed to the disadvantage of the debtor. Certainly, the advocates of free coinage have not proved, or, so far as I know, even attempted to prove, that such a change has occurred; and their argument upon this subject is therefore founded upon mere assertion, unsupported by evidence. In order to show that the adoption and maintenance of the gold standard of value has enriched, or has a tendency to enrich, the holders of capital at the expense of the producers, it would be necessary to prove that money yields a larger profit to the owner under such a monetary system than it would under a different one. Idle capital makes no profit; and, if the profits of the capitalist have been increased, it must be because he receives a higher rate of interest than formerly or because he realizes larger returns from his investments than formerly. Instead of this being the case, however, it is well known to every gentleman in this assemblage that the average rate of interest was never lower in this country than at the present time, and that profits upon investments have been reduced to the smallest percentage consistent with the continuance of the enterprises in which the investments are made. While this is true, the great body of our producers, the laboring people of the country, are receiving as high wages as they ever received at any period in our history, and the money in which they are paid will purchase in the markets more of the necessaries and comforts of life than ever before. Capital and labor combined are the only real producers of wealth, and the constant tendency in this country is to give labor more and capital less out of the proceeds of their joint products. This is a fixed law of our industrial progress; and, unless disturbed by violence or by unwise legislation, it will continue to operate until the relations between these two productive forces are permanently adjusted upon an equitable basis. Their real interests are not conflicting, but dependent; and every attempt to array one against the other is injurious to both. I am sorry to say that one of the most effective weapons in the hands of our free silver opponents has heretofore consisted of appeals to the class and sectional prejudices of the people; but these appeals appear now to have spent their force, and I think we may congratulate the country upon the prospect of a more dispassionate and intelligent discussion of the subject hereafter.

But, Mr. Chairman, we must not assume that the abandonment or defeat of the free silver movement will alone be sufficient to insure permanent financial peace in this country. Unfortunately, as I think, the

currency legislation of the last thirty-three years has devolved upon the government of the United States nearly the entire responsibility for the maintenance of a sound and stable currency, and has at the same time denied to the public authorities the power to employ the ordinary and necessary means for the discharge of the duties imposed upon them. We have ten different forms of money, or representatives of money, in this country, amounting in the aggregate to more than $2,000,000,000; and the value of every dollar of it, except about $613,000,000 in gold coin and gold bullion, depends in whole or in part upon the faith and credit of the United States. By the Resumption Act of 1875, and under the policy expressly declared in two subsequent acts of Congress, the government is required to keep this entire volume of currency equal in exchangeable value to gold coin, because in no other way can the United States notes be redeemed in coin as required by law and the parity of the two metals be maintained. To compel the holder of these notes to receive silver in exchange for them when he demands gold would at once destroy the parity of the two metals, because it would make the inferior coin the measure of their value in the hands of the people, and it would not reduce gold to the level of silver. Such a course would place the currency of the country upon a silver basis; and, as the silver dollar is not intrinsically worth as much as the gold dollar, all further attempts to maintain their parity would be unavailing. Parity between two coins of unequal intrinsic value can be maintained in only one way, and that is to adopt the more valuable one as the standard, and by the credit and resources of the government keep the less valuable one equal to it in purchasing power. If the less valuable coin is adopted as the standard, or is permitted to become the standard, the parity is destroyed, because the more valuable one cannot be brought down to its level, either here or in the markets of the world. The government of the United States is therefore bound to redeem its notes in gold when gold is demanded, or fail to meet the responsibility imposed upon it by the law and by the existing state of our currency; and it must continue to do this as long as it has any notes outstanding. In order to carry out this policy, it must have constantly on hand a sufficient amount of gold to inspire the public with confidence in its ability to redeem its obligations when presented; and this gold, under the conditions which have existed during the last three years, can be promptly procured only by the sale of interest-bearing bonds. One of the most important questions the people have now to consider is whether they can afford to adhere longer to a system which periodically augments the public debt for the purpose of securing gold to be exchanged for notes, which, when redeemed, are not retired and cancelled, but are reissued and put in circulation, to be over and over again presented for redemption. So far as the merits of this single question are affected, it is immaterial whether our standard of value is to be

gold or silver, because the coin for redemption purposes, whether it be gold coin or silver coin, must be provided by the government; and it can be procured only by the sale of bonds. The free coinage of silver on account of and for the benefit of the owner of the bullion does not, therefore, enter into the discussion of this particular question. Such a policy would not give the government any silver except what it would receive in the ordinary way as a part of its revenues. It would provide no coin fund for redemption purposes, unless we should have a surplus revenue paid in silver. Whether we continue to maintain the gold standard of value or debase our currency to the silver standard, the obligation of the government to redeem its notes in coin on presentation will remain; and, consequently, the question whether the notes when redeemed shall be retired and cancelled or reissued is one which cannot be avoided or settled by a change in our coinage laws. It must be settled by legislation in another direction; and the advocates of free coinage of silver at the ratio of 16 to 1, or at any other ratio, are as much interested in its correct solution as are the opponents of that policy.

The first great mistake in our currency legislation was made in the Act of Feb. 25, 1862, which authorized the Secretary of the Treasury to issue United States notes to the amount of $150,000,000, and made them legal tender in the payment of all debts, public and private, except duties on imports and interest on the public debt. Following this, other acts were passed, under which additional notes of the same character were issued, until on the first day of May, 1866, the whole amount of depreciated legal tender paper outstanding reached $415,164,318. This was a radical and dangerous departure from true financial principles, if not a serious infraction of the Constitution of the United States. This depreciated paper, of course, expelled specie from circulation; but, as the government had not promised to redeem it at any particular time, it subjected the Treasury Department to no serious responsibility or inconvenience. That department, for the first time in our history, was invested with authority to issue notes to circulate as legal tender money; but, for the time being, it was exempt from all responsibility for their redemption. But since the passage of the act of May 31, 1878, and the resumption of specie payments on the first day of January, 1879, the situation has entirely changed; and the Treasury Department is now not merely an agency for the issue of circulating notes, but is required to provide for their redemption in coin, and to reissue them when redeemed. Under the silver purchasing act of July 14, 1890, additional Treasury notes, to the amount of $155,931,602, have been issued, of which $143,000,000 are still outstanding. These notes, also, when redeemed, must be reissued, or standard silver dollars must be substituted for them. Since Jan. 1, 1879, old United States notes amounting to $310,000,000 have been redeemed in gold on demand of the holders;

and yet every dollar of these notes is still outstanding, having been reissued as expressly required by the law. Since July 14, 1890, Treasury notes issued for the purchase of silver bullion have been redeemed in gold to the amount of more than $76,000,000; and all these notes are still in existence, uncancelled. It thus appears that the government has redeemed notes in gold to the amount of $386,000,000, and that the notes so redeemed are still outstanding, and may be presented for redemption over and over again as long as our legislation remains in its present condition. Under such a system of redemption and compulsory reissue the difficulty of maintaining permanently an adequate coin reserve would be very great, even if the Treasury Department were properly organized and equipped for the transaction of a banking business; but the difficulty is greatly increased by the fact that the authority of the Secretary of the Treasury is so limited by law that he is not permitted to resort to any of the means usually adopted by financial institutions in cases of emergency. Gold can be procured only by sales of bonds or by voluntary exchanges of gold coin for other forms of currency by the banks, and it is scarcely necessary to say that these voluntary exchanges are most difficult to make at the very times when gold is most needed. When bonds are sold in our own market, experience has shown that a large part of the gold to pay for them is taken from the Treasury reserve in the first instance or withdrawn within a short time after the bonds have been paid for and delivered. A regular banking institution can easily provide a proper reserve and can easily replenish it, when reduced, because it can stop discounts or call in its outstanding loans, if necessary, or borrow for short periods; but the Treasury Department can do none of these things. It was not established or organized for any such purpose, and is unfitted for the discharge of such duties. It ought not to be required to provide and hold a reserve for the redemption of circulating notes, or, if required to do so, the notes ought to be retired and cancelled, when redeemed, or, in other words, the debt, when paid, ought to be extinguished. The government of the United States ought not to be engaged in the business of issuing notes to circulate as money. This is not a proper function of that government; and, the sooner this truth is realized by the people, the better it will be for the country. Of course, as long as the government continues to issue circulating notes, a coin reserve must be kept and the notes must be promptly redeemed on presentation; and nothing I have said should be construed as an intimation even that the reserve ought to be abandoned or impaired while the present system is maintained. My contention is that the notes ought not to be kept outstanding, but should be retired and cancelled as speedily as a sound and safe currency can be provided to take their places. There can be no financial repose in this country so long as these notes constitute a part of our currency, because the fact that they

exist compels the Government to provide a large gold reserve, which, in the very nature of things, cannot be permanently maintained at any fixed amount; and, whenever it begins to diminish, distrust and apprehension arise in the public mind, values are unsettled, business is disturbed, and more or less loss is entailed upon the people. The losses already sustained on this account are almost beyond computation; and there is no good reason to believe that the country can escape further injury in the future if the policy of the government is unchanged in this respect. The fact that the soundness of our currency depends, or is supposed to depend, upon the maintenance of a certain fixed reserve in the Treasury, keeps the business of the country in an almost constant state of agitation and alarm, and is from every point of view detrimental to the interests of the people.

I will not take the time this evening to discuss the various plans that have been suggested for the retirement and cancellation of the old United States notes and the Treasury notes, my only purpose now being to assist in directing public attention to the subject, and to express the decided opinion that this element of weakness must be eliminated from our system before we can have any positive assurance of permanent safety. After the experience of the last three years it seems almost incredible that a proposition to retire these notes should encounter serious opposition, though there is, of course, room for wide differences of opinion as to the manner in which this shall be accomplished and as to the character of the currency that shall be substituted for them.

It is sometimes said that, although these notes constitute a part of the public debt, they bear no interest, and are therefore the cheapest form of currency that can be provided for the use of the people; but a very brief statement of the facts will be sufficient to show how erroneous this conclusion is, and that the United States note is the most expensive form of currency the people can have. In order to procure and maintain a fund for the prompt redemption of the notes on presentation, it has been necessary to issue interest-bearing bonds to the amount of $257,915,400. Of these bonds, which were issued at various dates, $65,000,000 bore interest at the rate of 4½ per cent., $92,915,400 bear interest at the rate of 4 per cent., and $100,000,000 bear interest at the rate of 5 per cent. The paid and unpaid bonded indebtedness incurred on account of the United States notes was as follows on the first day of the present month: —

Bonds	$257,915,400
Interest	73,000,000
Total	$330,915,400

But, in addition to this, the $346,681,000 of United States notes are still outstanding, and must be paid at some time, so that the total indebtedness, paid and unpaid, on account of this so-called cheap form of currency, was actually as follows on the first day of the present month: —

Bonds	$257,915,400
Interest	73,000,000
Outstanding notes	346,681,000
Total	$677,596,400

Now, if the whole volume of outstanding notes had been funded at 4 per cent. on the first day of January, 1879, the date of resumption, the total indebtedness on that account, paid and unpaid, would have been as follows on the first day of the present month: —

Bonds	$346,681,000
Interest	232,276,000
Total	$578,957,000

This is $99,639,400 less than the liability which the government has actually been compelled to incur, in order to keep this form of currency outstanding and maintain its value; and no one can say that a very large additional indebtedness will not have to be contracted in the future for the same purpose.

The fact that a part of the notes redeemed with the gold thus procured has been used to defray the expenses of the government does not materially affect the merits of the question, because none of this interest-bearing indebtedness would have been created, or could have been lawfully created, if the United States notes and Treasury notes had not been in circulation. While we have not actually lost the whole $99,639,400, our indebtedness on account of the United States notes, paid and unpaid, amounts to that sum in excess of what it would have been if the notes had been funded in 1879; and, besides, the people will be compelled to pay in the future more than $11,000,000 annually as interest until the maturity of the bonds. It was the withdrawal of gold in exchange for notes, and the consequent reduction in the coin reserve, that compelled the issue of bonds, and even a surplus revenue would not have prevented such withdrawals; nor would a surplus revenue have enabled the government to procure gold coin without the issue of bonds, because for three years our receipts have consisted almost entirely of other forms of currency, and it is evident that this will continue to be the case until confidence in our financial stability and safety is fully restored.

The responsibility is upon the people and their representatives in Congress to determine whether the public debt shall be increased from time to time, in order to redeem and reissue this paper, which, to say the least, is of doubtful constitutionality, and is no more convenient for use than other forms of currency. The executive authorities must obey the laws as

they stand, whether they be good or bad; but all the powers conferred upon them by the statutes will be faithfully and fearlessly exercised whenever necessary for the preservation of the public credit and the maintenance of a sound and stable currency for the use of the people in the transaction of their business. If our financial and currency system is such that these results cannot be accomplished without increasing the public debt, let the system be changed; but it is scarcely fair to impose unpleasant duties upon us, and then criticise us for discharging them in the only way in which they can be discharged. There is more than one way in which an adequate and safe currency can be secured for the use of the people, without perverting the powers of the government or subjecting its credit to the vicissitudes of either legitimate trade or reckless speculation; and I most sincerely hope the subject will receive the careful consideration of all who feel an interest in the adoption of a sound policy, and that a plan may be formulated which will meet the approval of Congress. In the mean time the government will continue to redeem its obligations promptly on presentation, according to the requirements of the existing laws and a sound public policy. Those who want gold will get it, and those who want silver will get it: the parity of the two metals will be maintained; and the whole volume of our currency, paper and coin alike, will be kept equal to the highest standard recognized by the commercial nations of the world.

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